HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

Employment and wage gains drive single-family housing starts

CMHC forecasts the current pace of single detached housing starts to persist in 2006 and 2007, reaching 600 units in each of those years. Employment and wage gains will be major factors in sustaining the current pace of housing demand. Increases in in-migration and reduced out-migration will further support demand in 2007.

While the residential construction industry will continue to be constrained by shortages of some labour skills, there are indications that the supply of serviced land is sufficient to meet demand throughout the forecast period. Rising prices of new homes may cause some first-time homebuyers to either postpone home ownership or shift their attention to the less expensive existing home market (See Figure 1).

Regina home builders have been building single-detached units at a furious pace. In fact, the number of units under construction is the highest recorded since 1987. The current supply of units under construction and those completed and unoccupied is sufficient to last between nine and ten months at the present absorption trend of 50 units monthly. This represents a marked decline from the previous year when the corresponding duration was 8 months. As the summer ends, the number of completed and unabsorbed units stands at 22 units, the lowest total in over two years. We expect this inventory to increase in anticipation of the fall marketing period.

Units have been absorbed at a trended rate of 47 to 50 units monthly throughout 2006. Year-to-date, housing absorptions are up almost 15 per cent over the same time in 2005. The absorption trend is at its highest point since February 1989, the key factor behind the recent decline in inventory.

Average price of new singles to reach $268,000 in 2007

Our forecast calls a 13.5 per cent rise in average price in 2006 followed by an 8.1 per cent increase in 2007. These increases will bring the average price to $248,000 in 2006 and $268,000 in 2007. Rising labour, land and material costs passed on to consumers will continue to be important contributors to the rise in average price. More expensive amenities and features are also important factors in average price increases. We expect the rate of increase in the average price to moderate as home buyers turn to fewer amenities and less expensive land outside the city.

The shift to higher priced properties is continuing in Regina. Year-to-date figures indicate absorptions of new housing priced in excess of $250,000 have more than doubled and the share of the total absorptions of these properties has reached 42 per cent

REGINA

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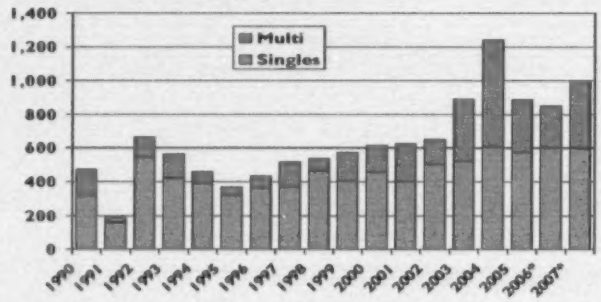
of total absorptions. This represents a significant increase from the four per cent market share only five years earlier.

So far in 2006, the average price per square foot for Regina single-detached units is about $168 for land and building, not including G.S.T. This is an increase of about 13.5 per cent over the 2005 average price per square foot. In terms of specific neighbourhoods, the average price per square foot price for a single-family dwelling is $217 in Lakeridge, $152 in Garden Ridge and $162 in Windsor Park.

Figure 1
Single and Multiple Housing Starts
Regina CMA



Source: Source: CMHC, CMHC Forecast(*)

Multi-family housing starts shift to apartment condominiums

Our forecast calls for Regina multiple starts to fall to 250 units in 2006 before rising to 400 units in 2007. So far in 2006, multiple starts have been dominated by the row condominium style of unit which has proven popular with first-time home buyers and small investors. The Regina market has seen more than 700 row housing units started since 2003, representing more than half of multi-family activity since that time. It appears that the market for these units peaked in 2004 and production this year will meet or slip from last year's activity.

Our most current report indicates the supply of row condominiums, including units under construction and complete and unabsorbed, has increased to more than 200 units, up about 21 per cent compared to the late summer in 2005. This supply represents more than 12 months of sales at the long term absorption trend but less than eight months supply at the short term absorption rate.
Row housing condominiums have seen an average price of close to $146,000 to-date in 2006; considerably lower than the new single-detached price and only slightly above the resale condominium price. Row units priced in the $120,000 to $139,999 range captured about 42 per cent of the market. Fifty per cent of absorptions recorded were in the $140,000 and up range.

At the time of writing, a limited supply of new apartments exists. Of the 125 apartments in supply, 121 are condominiums. Of these, only 12 units are completed and unoccupied. There is some historical evidence suggesting that when the supply of these types of units reaches this level, new starts follow. A growing proportion of seniors in the population provides additional support for this expectation as demand from this group will encourage new projects to come on stream.

Only 12 condominium apartment absorptions have been recorded by late summer 2006, with an average price of approximately $158,500. The average price of condominium apartments will increase in the face of higher land and building costs and increased demand from an aging population.

Resale Market

Resale market to remain steady in 2006 and 2007

In 2006, the resale market will continue to be an attractive option for homebuyers. Total sales in 2006 are expected to surpass activity in 2005 by over six per cent reaching 2,900 units sold. This will represent the best year for resale transactions since 1997 when 2,926 sales were recorded. One of the factors supporting the increase in demand for existing homes has been the jump in average weekly earnings to date in 2006. Earnings have risen on average over nine per cent compared to one year ago. Regina has not seen this level of increase since 2000. The increase in earnings is enabling first-time buyers currently in the rental market to enter into homeownership, while providing existing owners an opportunity to upgrade their unit.

The picture will be slightly different in 2007. Total sales will continue to edge higher as the forecast calls for 3,100 unit sales. This will be the highest number of sales since 1986. However, in 2007, demand from the rental market will decline slightly. Demand will occur through household creation from an increase in in-migration and people moving out on their own. One of the reasons for this is because Regina remains one of the more affordable cities to move in to homeownership in Western Canada. Other contributing factors supporting demand for resale homes in both 2006 and 2007 will be the strong price growth in the new home market compared to the existing home

market coupled with relatively low mortgage rates.

A wider choice of existing homes will also encourage demand going forward. In both 2006 and 2007, listings will continue to rise by almost six per cent and one per cent, respectively. In 2006, there will be 4,300 homes listed, the highest number of new listings since 1997 when 4,307 units were listed. With new listings on the rise, active listings have increased as a result. Although this may seem to be a significant increase, there is enough demand to satisfy this level of supply. Given the current rate of sales, the level of inventory has only increased by 0.2 percentage points compared to August 2005, representing 2.6 months of supply. In addition, there has not been a significant increase in the duration that it takes for a home to sell. In August 2005, it took an average of 33 days to sell a home. One year later this has increased slightly to 35 days.

Strongest price growth on record in 2006

Average prices are expected to increase by a record 11.2 per cent from 2005 to 2006. In 2007, expect a more modest rise, as prices are forecasted to edge higher by 7 per cent to reach $145,500. Driving the increase in prices in Regina has been a shift in sales to the higher price ranges. In fact, according to the Association of Regina Realtors, to the end of August 2006 the percentage of sales in the $240,000 and over price category has increased over 70 per cent compared to one year ago. We anticipate that this will continue on to 2007. See figure two.

Cost of home ownership rises 17 per cent in 2006

The cost of making mortgage payments on a resale home purchased at the forecast average resale price will increase in 2006 by almost 17 per cent and by 11 per cent in 2007. These increases in the monthly principal and interest payments result from both higher prices and the forecast for higher mortgage rates in the forecast period. These increases will have some negative impact on homebuyers perhaps leading to some potential home buyers postponing purchase.

Rental Market

Average vacancy rate stable at three per cent in 2006 and 2007

Our forecast calls for an average vacancy rate of three per cent for Regina in 2006 and 2007. Rising mortgage interest rates and rising prices in the resale and new housing markets will cause some rental households to postpone their decision to move toward homeownership. Employment gains will also lead to in-migration and growth in the number of renter households.

On the negative side, there are indications that some of the more affordable row and apartment condominium properties built in recent years were purchased by small investors, thus indirectly adding to the supply of rental housing. Furthermore, rental households have been shown to be more mobile than owner households. These households are more prone to out-migrate leading to reduced demand.

We expect the historical trend of modest rental increases to continue in Regina resulting in rental increases averaging only one to two per cent annually for one and two-bedroom apartments.

Economic Outlook

Employment recovers in 2006.

Regina will recover the job losses experienced in 2005 bringing average employment back to the 2005 figure of 108,600 employed. Most of the gains have been in full-time employment supporting housing demand. In 2007, employment gains will rebound with 1,500 additional employed. See figure three.

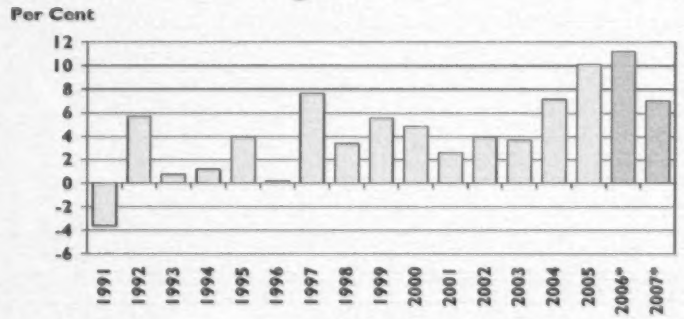
The goods sector will see employment gains in 2006 of more than 2,200 employed. A good portion of these gains can be attributed to primary metal manufacturing where close to 1,000 additional jobs will be created. In the service sector, losses have been recorded in trade, finance, insurance and real estate as well as accommodation and food services. Public service employment has seen a recovery in 2006.

The construction sector will end the year with average gains of 900 to 1,000

Figure 2

Growth in Average Sale Price

Regina CMA



Source: Canadian Real Estate Association, CMHC Forecast(*)

additional employed resulting in total average employment of approximately 6,700 employed. The residential and institutional construction sectors have expanded payrolls to contend with higher levels of activity. At the time of writing this report, the value of city building permits was up 17.5 per cent compared to last year at this time. Major construction projects are underway at the RCMP training depot and the University of Regina among others.

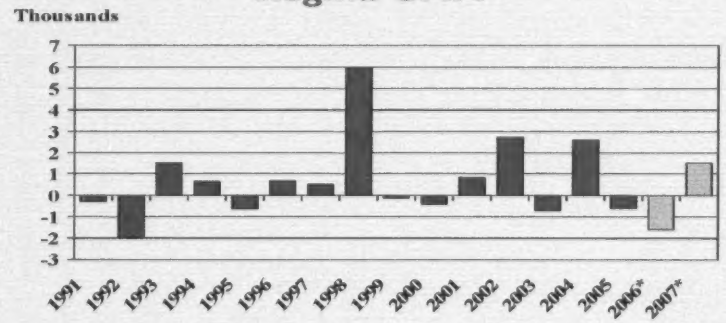
The unemployment rate will increase slightly in 2006 to five per cent but increased employment and limited labour force growth will cause a decline of the rate in 2007.
After a 1.2 per cent decline in average weekly earnings in 2005, earnings will be up close to nine per cent in 2006. Both the goods and service sectors will see increases in average weekly earnings helping to drive housing demand.

Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Figure 3
Change in Total Employment
Regina CMA



Source: Statistics Canada and CMHC

CMHC FORECAST SUMMARY

Regina Census Metropolitan Area
Fall 2006

	2004	2005	%Chg	2006 (f)*	%Chg	2007(f)	%Chg
RESALE MARKET							
MLS®(1) new listings (Monthly Avg.)	2,785	2,730	-2.0%	2,900	6.2%	3,100	6.9%
Total MLS® Sales	3,898	4,066	4.3%	4,300	5.8%	4,350	1.2%
Average MLS® Price	$111,041	$122,284	10.1%	$136,000	11.2%	$145,500	7.0%
NEW HOME MARKET							
Starts							
Total	1,242	888	-28.5%	850	-4.3%	1,000	17.6%
Single-detached	605	572	-5.5%	600	4.9%	600	0.0%
Multiple-detached	637	316	-50.4%	250	-20.9%	400	60.0%
Average New House Price							
Single-family	$192,949	$218,587	13.3%	$248,000	13.5%	$268,000	8.1%
RENTAL MARKET							
Vacancy rate (Oct) -Per cent	2.7	3.2		3.0		3.0	
2-bedroom Rent (Annual Per Cent Chg)	$543	$547	0.7%	$553	1.1%	$560	1.3%
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.59	5.06		6.27		6.0 - 6.75	
Mortgage rate (5 yr term)	6.23	5.99		6.67		6.25 - 6.75	
Employed	109,200	108,600	-0.5%	108,600	0.0%	110,100	1.4%
Employment growth (# jobs)	2,600	-600		0		1,500	
Unemployment rate (%)	5.0	4.8		5.0		4.8	
Net-migration (Census Year)	115	103		-100		0	

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for over 60 years.

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